HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Victoria CMA

Canada Mortgage and Housing Corporation

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New Home Market

New Construction Will Ease

New home construction will ease in Victoria. Data for the first nine months of the year indicates that new home starts are ten per cent lower than the level recorded over the same period last year. For the remainder of the year, fewer apartment condominiums will break ground in Greater Victoria as builders adjust to changing market conditions. As a result, the annual level of housing starts will be nine per cent lower than in 2007.

The moderating pace of new construction will continue into next year, with new home starts projected to fall an additional 15 per cent in 2009. This lull in new construction reflects weaker demand in the resale market, a large number homes currently under construction, rising construction costs, and less investor interest as price gains moderate.

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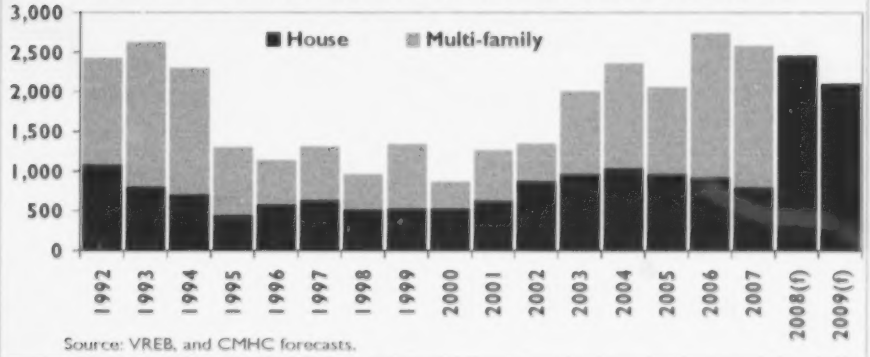
Figure 1

New Construction to Moderate in 2009



Source: VREB, and CMHC forecasts.

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With relatively more affordable homes and available land than in the core market, both potential buyers and builders have been attracted to the West Shore markets.[1] These markets accounted for nearly 50 per cent of all new homes in 2007, and will account for roughly 70 per cent in both 2008 and 2009.

Single-Detached Homes

Construction broke ground on roughly 800 new houses in Metro Victoria in 2007, a 14 per cent decline from solid 2006 construction levels. A further dip in single detached home starts is expected for this year. Year-to-date starts are currently six per cent below the level recorded over the first nine months of last year.

Sales of single-detached homes on the resale market have been tailing off in 2008. This sends a signal to builders that demand is easing. The outlook for next year is that construction will ease yet again in 2009, with roughly 700 new houses breaking ground.

The average price of a new house in Greater Victoria rose 14 per cent last year. Thus far in 2008, the average sale price is $668,000, an eight per cent jump from the average sale price recorded over the same period last year.

Apartment Condominiums

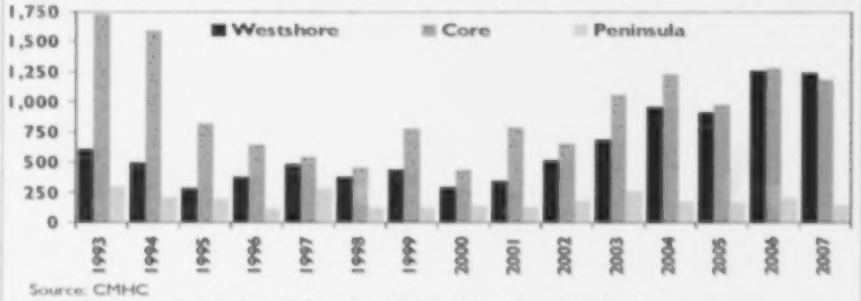
Despite year-to-date new construction being in line with the level achieved in 2007, apartment condominium starts are projected to fall over the remainder of the year and into 2009, following five years of above average levels.[2] Apartment condominium starts will edge down to 1,250 units in 2008, and dip further next year.

The projected lull in new apartment condominium construction will be tied to rising construction costs, the increasing supply on the market (both new and resale markets), and moderating prices. Builders are currently working to balance rising costs (e.g., transportation and materials: steel and plastic) and a lack of experienced skilled tradespeople in an environment of softening prices. The other key factor explaining why fewer apartment condominiums will be built is the rising number of completed but unoccupied apartment condominiums and the record level of units that are currently under construction across Greater Victoria.

In addition to the rising supply of new apartment homes, there is a very high number of active apartment condominium listings on the resale market. June marked a 13-year high in terms of active listings on the resale market (1,265 listings). Many buyers will be able to satisfy their needs by buying existing condominiums.

Figure 2

Increased New Construction on West Shore



Source: CMHC
•West Shore: Langford, Colwood, Metchosin, Highlands, View Royal, and Sooke.
•Core: Victoria City, Saanich, Oak Bay, and Esquimalt.
•Peninsula: Central Saanich, North Saanich, and Sidney.

[1] The core market includes Victoria City, Oak Bay, Saanich, and Esquimalt.

West Shore includes: View Royal, the Highlands, Langford, Colwood, Metchosin, and Sooke; the Core includes: Victoria City, Saanich, Oak Bay, and Esquimalt ; and the Peninsula includes: Central Saanich, North Saanich, and Sidney.

[2] Over the past 15 years (1992-2007), the average number of annual starts in Greater Victoria was 1,790.

Resale Market

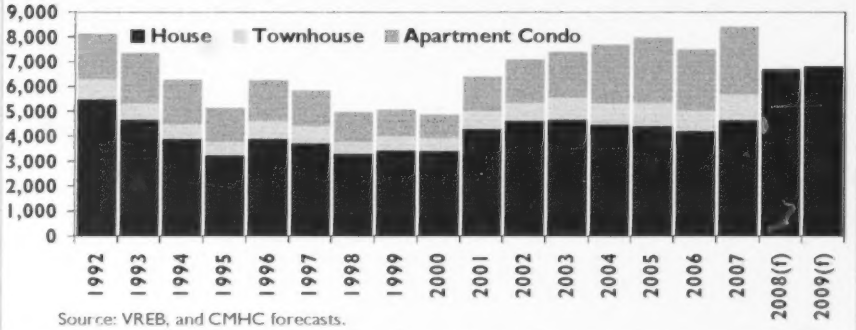
Prices to Adjust to Changing Supply and Demand Conditions

After four years of double-digit resale price growth, the average Greater Victoria MLS®[3] price grew by nine per cent in 2007. This year and next, as the number of listings remains high and buyer demand slows, market conditions will become more balanced, and price gains will continue to ease. The average resale price is projected to grow four per cent this year, and decline by six per cent in 2009.

Fewer resales are projected in the short-term, after a strong 2007 in which resales grew 12 per cent and reached a 16 year high. The softening of resale activity reflects high existing home prices, less speculation, and increased economic uncertainty. Despite the decline in MLS® sales in 2008 and a leveling off which is expected next year, the forecasts remain higher than the 15-year average for the Victoria resale market.

Figure 3

Resales Returning to Historical Average



Source: VREB, and CMHC forecasts.

While the number of resale transactions will be lower this year and next, the distribution by dwelling type will remain consistent with that recorded during the past few years. Single-detached homes are expected to account for over half of all transactions and apartment condominiums will represent approximately one-third in 2008 and 2009. Townhouse sales will account for the remainder.

The distribution of resales in the Victoria CMA will continue to follow the pattern established in recent years. In terms of regional distribution, roughly 30 per cent of all resale transactions occurred in West Shore markets, 60 per cent in the core markets, and 10 per cent in peninsula markets.

[3]Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

Very Little New Rental Stock in Victoria

Since the end of the last millennium, there has been significant construction of new homes in Greater Victoria. However, during this construction period, rental units have accounted for only six per cent of all new homes. With very few purpose-built rental properties entering the rental stock, vacancy rates have fallen, and are among the lowest in Canada. During Canada Mortgage and Housing Corporation's (CMHC) most recent rental market survey (April 2008), the vacancy rate for the Victoria CMA was estimated at 0.3 per cent – the lowest of all metropolitan areas in Canada.

Developers have had very little incentive to build purpose-built rental buildings. Increases in rents have not kept pace with apartment condominium price appreciation over the past seven years. The limited rental stock, the secondary rental market has grown and will become more prominent unless higher rents and lower construction costs make rental construction financially viable.

In addition to CMHC's rental market survey conducted every October, CMHC conducts a survey of the secondary rental market in select Canadian centres. This fall marks the first time Victoria has been included. Its results will be included in the Victoria Rental Market Report which will be released in December.

Increased Selection of Apartment Condominiums

Relative to the first nine months of last year, resales of apartment condominiums are down 20 per cent. This trend is projected to continue through the rest of the year, and a similar number of sales will take place next year.

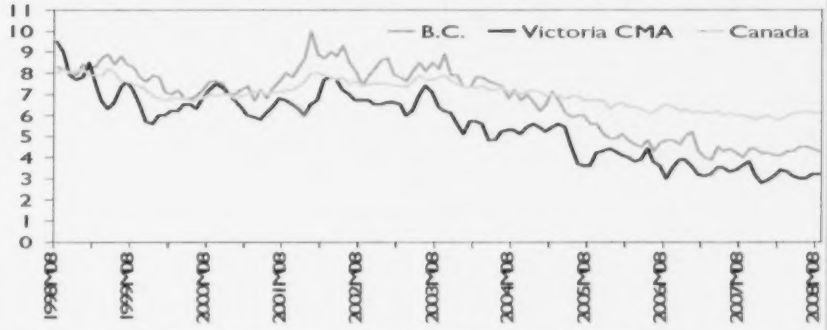
While sales have been falling, supply has been rising. At the end of September, there were over 1,200 active listings on the market, a nearly 50 per cent increase from last September. For potential buyers, the rising supply means that there is increased selection on the market.

Weaker demand, combined with increased supply has led to a buyers' market for apartment condominiums in Greater Victoria.

After recording an increase in the average apartment condominium price of 11 per cent in 2007, prices will edge up slightly in 2008 and decrease next year.

Figure 4

Low Unemployment in the Capital Region



Source: Statistics Canada Labour Force Survey, Monthly (August 1998-August 2008)

Economy

Solid Regional Economic Fundamentals

Despite increased economic uncertainty, the Capital region's economy remains on a solid footing. The region's economy is projected to outperform the province as a whole in the short-term, as it is less dependent on resources and more diversified.

The local economy is buoyed by a strong labour market that has seen employment steadily increase since 2001. After the first nine months of the year, employment had risen six per cent relative to last year.[1] Jobs in Victoria are poised to increase in the short-term, and with employment reaching nearly 200,000 people by the end of 2009. Unemployment remains low, averaging 3.2 per cent in 2008, well below the 4.5 per cent recorded for the province. As more jobs are created and income rises, the demand for housing in the region is stimulated.

In addition to a strong labour market supporting homeownership demand, people continue to move to Greater Victoria from other regions of the province, country and abroad.

The Capital region is projected to record net positive migration of between 3,500 and 4,000 people next year due to the strong local economy and the attractiveness of the region as a retirement destination. The flow of people to the region will boost the demand for housing, as these new residents will require housing.

Another positive sign for the local economy is continued investment and development, evidenced by the increasing value of major capital projects. At the end of June, the value of all proposed projects and projects currently under construction was $11 billion, higher than the $9 billion recorded at the end of 2007.[4] While there are numerous non-residential projects currently under construction (e.g. construction at Victoria General and Royal Jubilee hospitals, and at UVic, Camosun College and Royal Roads), there is a significant number of large-scale residential developments that are planned (e.g. continued development of Bear Mountain, Colwood Corners, and the Roundhouse mixed use community). These residential developments that are presently in the pipeline will stimulate new construction in Greater Victoria over the next few years, when/ if they proceed.

[1] *B.C. Ministry of Technology, Trade and Economic Development: Major Projects Inventory. – June 2008*

Mortgage Rates

Mortgage rates are expected to be relatively stable throughout the last quarter of this year, remaining within 25-50 basis points of their current levels. Posted mortgage rates will decrease slightly in the first half of 2009 as the cost of credit to financial institutions eases. Rising bond yields, however, will nudge mortgage rates marginally higher in the latter half 2009. For the last quarter of 2008 and in 2009, the one year posted mortgage rate will be in the 6.00-6.75 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.50-7.25 per cent range.

Aging Population in Greater Victoria

Victoria is known for its mild climate and popularity as a retirement destination. Accordingly, the region has a relatively large elderly population. This is important in a housing demand context, as this segment of the population commonly looks to downsize to smaller homes that require less upkeep, yet afford them various lifestyle choices and amenities.

Currently, 17 per cent of the region's population is at least 65 years old, and this senior share is expected to increase to nearly 30 per cent within 25 years (by 2033).[5]

This is an important demographic change that both planners and developers will need to take into account as it will have a significant impact on future housing demand in the region.

[5] *B.C. Stats, P.E.O.P.L.E. 33*

Forecast Summary Victoria CMA Fall 2008							
	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	7,970	7,500	8,403	6,700	-20.3	6,800	1.5
MLS® New Listings	10,407	12,280	12,840	14,100	9.8	14,900	5.7
MLS® Average Price ($)	380,897	427,154	466,974	485,000	3.9	455,000	-6.2
New Home Market							
Starts:							
Single-Detached	974	928	795	740	-6.9	700	-5.4
Multiples	1,084	1,811	1,784	1,600	-10.3	1,300	-18.8
Semi-Detached	94	146	213	190	-10.8	180	-5.3
Row/Townhouse	111	198	158	160	1.3	160	0.0
Apartments	879	1,467	1,413	1,250	-11.5	960	-23.2
Starts - Total	2,058	2,739	2,579	2,340	-9.3	2,000	-14.5
Average Price ($):							
Single-Detached	506,309	552,363	629,278	675,000	7.3	675,000	0.0
Median Price ($):							
Single-Detached	478,950	498,000	564,450	600,000	6.3	600,000	0.0
New Housing Price Index (% chg.)	7.9	3.8	0.5	0.5	-	0.0	-
Rental Market							
October Vacancy Rate (%)	0.5	0.5	0.5	0.3	-0.2	0.3	0.0
Two-bedroom Average Rent (October) ($)	837	874	907	950	-	990	-
One-bedroom Average Rent (October) ($)	657	681	716	745	-	770	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.06	6.28	6.90	6.75	-0.15	6.31	-0.44
Mortgage Rate (5 year) (%)	5.99	6.66	7.07	7.05	-0.02	6.92	-0.13
Annual Employment Level (,000)	169,300	175,200	182,900	192,000	-	195,000	-
Employment Growth (%)	4.5	3.5	4.4	5.0	-	1.6	-
Unemployment rate (%)	4.4	3.7	3.3	3.3	-	3.3	-
Net Migration [1]	2,159	3,241	3,300	3,400	3.0	3,500	2.9

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2007 migration data is forecasted

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